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C O N F I D E N T I A L MOSCOW 000203

SIPDIS

DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND GREENSTEIN,  
S/EEE MORNINGSTAR  
DOE FOR HEGBURG, EKIMOFF  
DOC FOR JBROUGHER  
NSC FOR MMCFAUL

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#) [BO](#)  
SUBJECT: TRANSNEFT CONFIRMS OIL DEAL WITH BELARUS

REF: MOSCOW 53

Classified By: ECON MC Matthias Mitman for Reasons 1.4 (b/d)

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ALL OIL OVER 6.3 MT SUBJECT TO FULL DUTY  
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¶1. (C) Oleg Pilipets, long-time International Affairs Advisor in the Office of the President of Transneft, Russia's oil pipeline monopoly, confirmed to us January 28 that Moscow and Minsk signed a deal to end the dispute on oil shipments (reftel). Pilipets said approximately 6.3 million tons (mt) of Russian oil would be provided to Belarus in 2010 duty-free. The amount was agreed to based on Belarus's domestic needs. According to Pilipets, Belarus is "free to do whatever it wants" with the duty-free oil. He said the agreement is effective immediately, but did not know how long it would be in effect, only saying that such agreements are typically applicable for one year.

¶2. (C) Pilipets added that the inter-governmental agreement did not specify any amounts of oil to be purchased by Belarus beyond the 6.3 mt. He explained that any additional oil that Belarusian consumers would like to purchase from Russian suppliers would be subject to the full export duty "according to Russian law" with "no exemptions and no favors." (Note: Belarus reportedly had bought an additional 15 mt of oil per year that it processed and re-exported. End note.) Pilipets said he did not know what DPM Sechin meant by remarks, as quoted in the press, indicating that Russia had "compromised" to make the deal happen. Pilipets noted, however, that under the new deal, Belarus would still be receiving a subsidy of about \$1 billion per year -- his estimate of the foregone duties on the amount of oil in the agreement.

¶3. (C) According to press reports, the deal included an 11% raise increase tariffs on Russian crude transiting Belarus, based on projected Belarusian GDP growth. Pilipets could not confirm that detail, saying that Transneft "has nothing to do with" Belarus's transit charges. He said Belarusian authorities are free to charge what they want, keeping in mind "market realities" that could cause consumers to purchase oil from elsewhere if it is too expensive through Belarus. Pilipets reiterated that the flow of Russian oil solely transiting Belarus en-route to third countries was never affected by the dispute.

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COMMENT

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14. (C) We had expected a resolution to emerge before the dispute caused any major disruptions in oil flows to Europe. While the core issue primarily reflected the GOR's subsidy mechanism to Belarus, the incident again called into question Russia's reputation as a reliable energy supplier. Although we may never know exactly what "compromises" were made by either side, it is unlikely that the resolution was purely commercial, with DPM Sechin quoted as "taking into consideration the special relations with our brotherly republic." Unfortunately, the agreement leaves room for continued politicization of the oil trade with Belarus, as the duty issue likely will emerge again as part of the process of harmonizing tariff schedules among the Russia-Belarus-Kazakhstan customs union. End comment.  
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